

Message Text

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E.O. 11652: GDS
TAGS:PFOR, ENG, UNGA
SUBJECT: SECRETARY'S UNGA SPEECH -- DRAFT 8 -- SECTION ON
ECONOMIC SECURITY (SECTION 2 OF 7)

FOR S/S -- PASS TO LORD FROM S/P-LEWIS AND EB-ENDERS

SEPTTEL ANSWERS SECRETARY'S QUERIES RE NEW IMF FACILITY AND
OTHER POINTS. ANSWERS ALSO REFLECTED IN REVISED TEXT,
WHICH FOLLOWS:

BEGIN TEXT. ECONOMIC SECURITY

1. OUR FIRST TASK IS TO ENSURE BASIC ECONOMIC SECURITY.

2. THE SWINGS AND SHOCKS OF ECONOMIC ADVERSITY ARE A

GLOBAL CONCERN, TEARING AT THE FABRIC OF DEVELOPED

AND DEVELOPING NATIONS ALIKE. UNEMPLOYMENT, FALLING

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STANDARDS OF LIVING, AND THE DESTRUCTION OF PURCHASING

POWER BY INFLATION, FUEL A DISCONTENT THAT OUR SOCIAL

AND POLITICAL INSTITUTIONS CANNOT LONG TOLERATE. THE

CYCLE OF GOOD TIMES AND BAD, ABUNDANCE AND FAMINE, CAN DO VAST DAMAGE TO LIVES AND TO ECONOMIES. WE HAVE SEEN ITS EFFECTS IN MANY COUNTRIES IN THE RECENT PERIOD.

3. DEVELOPING ECONOMIES ARE BY FAR THE MOST VULNERABLE. ALREADY EXISTING PRECARIOUSLY ON A THIN MARGIN BETWEEN HOPE AND DESPAIR, THEY ARE THE MOST AFFECTED BY ECONOMIC DISASTERS NATURAL AND MANMADE, THE VAGARIES OF WEATHER AND THE SWINGS OF THE BUSINESS CYCLE. RECESSIONS IN THE INDUSTRIAL COUNTRIES DEPRESS THEIR EXPORT EARNINGS. SHARP INCREASES IN THE PRICES OF OIL AND FOOD HAVE A DEVASTATING EFFECT ON THEIR ABILITY TO MAINTAIN MINIMAL STANDARDS OF NUTRITION AND TO OBTAIN FERTILIZER, POWER AND OTHER VITAL IMPORTS TO KEEP THEIR ECONOMIES GOING.

4. SOUND DEVELOPMENT PROGRAMS CANNOT PROCEED, AND THE GREAT EFFORT THAT DEVELOPMENT REQUIRES CANNOT BE SUSTAINED, UNLESS WE CAN AFFORD DEVELOPING COUNTRIES SOME SECURITY AGAINST ECONOMIC INSTABILITY. THIS IS THE MINIMUM REQUIREMENT OF AN EFFECTIVE STRATEGY FOR DEVELOPMENT.

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MENT.

5. BECAUSE ECONOMIC SECURITY IS A GLOBAL PROBLEM, IT IS A GLOBAL RESPONSIBILITY.

-- THE INDUSTRIAL NATIONS MUST COORDINATE MORE EFFECTIVELY TO RESTORE AND MAINTAIN THEIR STABLE EXPANSION;
-- NATIONS WHICH SUPPLY VITAL PRODUCTS MUST AVOID ACTIONS WHICH DISRUPT THAT EXPANSION; AND

-- THE INTERNATIONAL COMMUNITY MUST UNDERTAKE A NEW
APPROACH, WHICH I SHALL PROPOSE, TO REDUCE DRASTIC
FLUCTUATIONS IN THE EXPORT EARNINGS OF THE DEVELOPING
COUNTRIES.

6. FIRST, THE RESPONSIBILITY OF THE INDUSTRIAL COUNTRIES.

THE ECONOMIC HEALTH OF THE INDUSTRIAL COUNTRIES IS CENTRAL
TO THE HEALTH OF THE GLOBAL ECONOMY. THEREFORE, THEIR
EFFORT TO AVOID THE EXTREMES OF RECESSION AND INFLATION
-- FROM WHICH WE ARE NOW ONLY BEGINNING TO RECOVER --

BECOMES AN INTERNATIONAL, AS WELL AS A NATIONAL, DUTY.

7. IN A NEW DEPARTURE THIS PAST YEAR, THE LEADERS OF THE
UNITED STATES AND ITS MAJOR TRADING PARTNERS HAVE BEGUN
CLOSER COORDINATION OF THEIR NATIONAL ECONOMIC POLICIES.

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A SHARED SENSE OF URGENCY, AND THE EXCHANGE OF INFORMATION
ABOUT TRENDS AND INTENTIONS, HAVE ALREADY AFFECTED
IMPORTANT POLICY DECISIONS. PRESIDENT FORD INTENDS TO
CONTINUE AND INTENSIFY CONSULTATIONS OF THIS KIND. THE
SUCCESSFUL RECOVERY OF THE INDUSTRIAL ECONOMIES WILL BE
THE ENGINE OF INTERNATIONAL ECONOMIC STABILITY AND GROWTH.

8. THE INTERDEPENDENCE OF THE GLOBAL ECONOMY MEANS,
SECONDLY, THAT THE WELL-BEING OF ALL NATIONS IS SIGNIFI-
CANTLY AFFECTED BY THE ACTIONS OF SUPPLIERS OF VITAL
PRODUCTS.

9. FOR NEARLY TWO YEARS, THE UNITED STATES HAS BELIEVED
THAT THE FUTURE OF THE WORLD ECONOMY THUS REQUIRED A

DIALOGUE BETWEEN CONSUMING NATIONS AND PRODUCER NATIONS.

AS A RESULT OF PROPOSALS MADE BY MANY COUNTRIES THE
GOVERNMENT OF FRANCE IS INVITING INDUSTRIALIZED, OIL
PRODUCING, AND DEVELOPING NATIONS TO BEGIN A DIALOGUE ON
THE PROBLEMS OF ENERGY, DEVELOPMENT, RAW MATERIALS, AND
RELATED FINANCIAL ISSUES. THE UNITED STATES HAS SUPPORTED
THIS PROPOSAL AND WE LOOK FORWARD TO A SUCCESSFUL START
OF THIS DIALOGUE THIS FALL.

10. BUT THIS DIALOGUE IS PREMISED ON AN APPROACH OF
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NEGOTIATION AND CONSENSUS, AND NOT THE EXERCISE OF BRUTE
ECONOMIC POWER TO GAIN ADVANTAGE AT THE EXPENSE OF OTHERS.
THE ENORMOUS AND ARBITRARY INCREASES IN THE PRICE OF OIL
OF 1973 AND 1974 HAVE ALREADY EXACERBATED BOTH
INFLATION AND RECESSION WORLDWIDE. THEY HAVE SHATTERED
THE ECONOMIC PLANNING AND ASPIRATIONS OF MANY COUNTRIES.
ANOTHER INCREASE WOULD SLOW DOWN OR REVERSE THE RECOVERY
OF EVERY NATION REPRESENTED IN THIS ASSEMBLY. IT WOULD
BE A SERIOUS BLOW TO THE HOPES OF MILLIONS AROUND THE
WORLD FOR AN IMPROVEMENT IN THEIR CONDITION. AND HOWEVER
MUCH WE WISH OTHERWISE, IT WOULD ERODE SUPPORT IN THE
INDUSTRIAL WORLD FOR ANY MEANS OF ASSISTANCE TO DEVELOP-
ING COUNTRIES.

11. FOR ITS PART, THE UNITED STATES IS PREPARED FOR
COOPERATION. THE FAILURE OF INTERNATIONAL COOPERATION
WILL DAMAGE US LEAST. BUT WE BELIEVE THE FORTHCOMING
DIALOGUE IS A TEST. WE WILL WORK TO MAKE IT SUCCEED,

IN THE INTEREST OF ALL NATIONS -- PARTICULARLY THE
DEVELOPING NATIONS. WE HOPE TO BE MET IN THAT SPIRIT.

12. STABLE GROWTH IN THE INDUSTRIAL NATIONS AND A

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COOPERATIVE APPROACH AMONG THE ADVANCED NATIONS, OIL
PRODUCERS, AND RAW MATERIALS SUPPLIERS ARE THUS CLOSELY
INTERRELATED. IF WE SUCCEED IN THESE ENDEAVORS WE CAN
FOCUS ON ANOTHER BASIC FACTOR OF ECONOMIC SECURITY FOR
DEVELOPING COUNTRIES -- THEIR EXPORT EARNINGS.

13. THE DEVELOPMENT PROGRAMS, AND INDEED THE BASIC
SURVIVAL, OF MANY COUNTRIES ARE HEAVILY DEPENDENT ON
EARNINGS FROM EXPORTS OF PRIMARY PRODUCTS WHICH ARE HIGHLY
VULNERABLE TO FLUCTUATIONS IN WORLDWIDE DEMAND. THEREFORE
THEIR PRODUCTION AND PRICES ARE EXTRAORDINARILY VULNERABLE
TO ECONOMIC EVENTS ELSEWHERE AND TO NATURAL DISASTERS AND
CROP FAILURE. IT IS DIFFICULT FOR THEM TO ADJUST PRODUC-
TION IN RESPONSE TO DEMAND. THEY HAVE FEW FINANCIAL
RESERVES TO CUSHION AGAINST THE SHARP DECLINES IN INCOME
THAT DEPRIVE THEM OF THE VITAL IMPORTS ON WHICH THEIR
GROWTH AND SURVIVAL DEPEND. THE UNPREDICTABILITY OF THEIR
EARNINGS MAKES A MOCKERY OF DEVELOPMENT PLANNING.
ECONOMIC INSTABILITY SHAKES THEM FAR MORE SEVERELY THAN
IT DOES THE INDUSTRIAL NATIONS.

14. THE QUESTION OF INCOME FROM PRIMARY PRODUCTS HAS
BECOME A CENTRAL QUESTION IN THE DIALOGUE ON INTER-
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NATIONAL ECONOMIC CONCERNS. MANY IDEAS HAVE BEEN PROPOSED

-- CARTELIZATION, PRICE INDEXATION, COMMODITY AGREEMENTS

AND OTHER METHODS. THE UNITED STATES GOVERNMENT HAS

COMPLETED A COMPREHENSIVE REVIEW OF ALL DIMENSIONS OF THE

PROBLEM AND VARIOUS POSSIBLE SOLUTIONS. ON BEHALF OF

PRESIDENT FORD, LET ME SET FORTH OUR PROPOSAL.

15. INDIVIDUAL COMMODITIES PRESENT SEPARATE PROBLEMS AND

THEREFORE ARE SUITED TO SEPARATE ARRANGEMENTS. FOR MANY

COMMODITIES THE CHARACTER OF THE PRODUCT AND THE MARKET

MAKES PRICE STABILIZATION DIFFICULT. IT MAY INVOLVE

SEVERE RESTRICTIONS ON PRODUCTION OR EXPORTS, EXTREMELY

EXPENSIVE BUFFER STOCKS, OR PRICE LEVELS WHICH COULD

BRING ON SUBSTITUTES AND THEREBY WORK TO THE LONG RANGE

DISADVANTAGE OF PRODUCERS. AND EVEN THE MOST AMBITIOUS

AGENDA FOR ADDRESSING INDIVIDUAL COMMODITIES COULD NOT

COVER ARRANGEMENTS FOR ALL OF THEM IN THE NEAR TERM.

MOREOVER, FOCUSING EXCLUSIVELY ON COMMODITIES WOULD NOT

PROVIDE SUFFICIENT PROTECTION TO THE MANY DEVELOPING

COUNTRIES WHOSE EARNINGS ALSO DEPEND ON THE EXPORTS OF

MANUFACTURED GOODS.

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16. BECAUSE OF THE WIDE DIVERSITY AMONG COUNTRIES,

COMMODITIES, AND MARKETS, A COMPREHENSIVE APPROACH,

ADDRESSED TO THE STABILIZATION OF OVERALL EXPORT EARNINGS,

WOULD BE MOST BENEFICIAL. FOR THIS REASON, THE UNITED

STATES PROPOSES CREATION IN THE INTERNATIONAL MONETARY
FUND OF A NEW DEVELOPMENT SECURITY FACILITY, TO BE USED
TO COMPENSATE FOR SWINGS IN EXPORT EARNINGS OF DEVELOP-
ING COUNTRIES:

-- THE FUND WOULD LOAN THE MONIES NEEDED TO SUSTAIN
DEVELOPMENT PROGRAMS IN THE FACE OF EXPORT FLUCTUATIONS --
AS MUCH AS \$2.5 BILLION OR EVEN MORE IN A SINGLE YEAR AND
A POTENTIAL FOR \$10 BILLION IN TOTAL LOANS OUTSTANDING.

-- ASSISTANCE WOULD BE AVAILABLE TO ALL DEVELOPING
COUNTRIES UNABLE TO FINANCE SHORTFALLS IN EXPORT EARNINGS,
UNLESS THE SHORTFALLS ARE CAUSED BY THEIR OWN RESTRAINTS
ON PRODUCTION OR EXPORTS.

-- THE POOREST COUNTRIES WOULD BE PERMITTED TO CONVERT
THEIR LOANS INTO GRANTS UNDER PRESCRIBED CONDITIONS.

-- ELIGIBLE COUNTRIES COULD DRAW UP TO 100 PERCENT OF
THEIR IMF QUOTAS, IN ADDITION TO THEIR NORMAL DRAWING
RIGHTS. MUCH OF THAT COULD BE DRAWN IN A SINGLE YEAR,
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IF NECESSARY -- PART AUTOMATICALLY, AND THE REST SUBJECT
TO CERTAIN CONDITIONS.

17. THE COUNTRIES WITH
THE MOST VIOLENT SWINGS IN THEIR EXPORT
EARNINGS WILL BENEFIT MOST FROM THE NEW FACILITY THAT
WOULD REPLACE THE IMF'S PRESENT COMPENSATORY FINANCE
FACILITY. IN THE GREAT MAJORITY OF CASES, THIS NEW
FACILITY WILL COVER NEARLY ALL OF ANY EARNINGS SHORTFALL.
OUR DETAILED PROPOSALS WILL BE PRESENTED TO THE BOARD

OF DIRECTORS OF THE INTERNATIONAL MONETARY FUND THIS FALL.

18. THIS MECHANISM WILL PROTECT DEVELOPING COUNTRIES

WHOSE EARNINGS ARE UNRELIABLE BECAUSE OF THEIR DEPENDENCE

ON EXPORTS OF A FEW VITAL COMMODITIES. BUT IT WILL

PROTECT AS WELL THOSE COUNTRIES WITH DIVERSIFIED AND

MANUFACTURED EXPORTS WHOSE EARNINGS ALSO FLUCTUATE WITH

THE BUSINESS CYCLE. THESE FUNDS WILL BE AN IMPORTANT

COMPLEMENT TO PRESENT ASSISTANCE PROGRAMS. THE BENEFITS

OF CONCESSIONAL AID PROVIDED TO THE DEVELOPING COUNTRIES

WOULD BE VITIATED WERE WE NOT ABLE ALSO TO PROVIDE FOR

EARNINGS STABILIZATION. THIS NEW DIMENSION ENHANCES OUR

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MORE TRADITIONAL TYPES OF ASSISTANCE AND THE ECONOMIC

SECURITY OF BOTH CONSUMERS AND PRODUCERS. FOR INDUS-

TRIALIZED COUNTRIES, IT MEANS A MORE STEADY EXPORT MARKET.

FOR DEVELOPING COUNTRIES, IT PROVIDES ASSURANCE THAT

DEVELOPMENT CAN BE PURSUED WITHOUT DISRUPTION. THUS ITS

SUCCESS WILL DEMONSTRATE OUR INTERDEPENDENCE, AND

STRENGTHEN THE FOUNDATION OF GLOBAL PROSPERITY, AS WELL

AS OF ECONOMIC DEVELOPMENT. INGERSOLL

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